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SOURCES OF CAPITAL FOR GEORGIA BUSINESS AND INDUSTRY

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and
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Foreword

This is the first in a new series of special reports to be prepared by the Industrial Services Branch of the Industrial Development Division to complement the Branch's program of direct personal assistance to Georgia business and industry.

While more than 500 management and technical assistance projects have been completed since the program was inaugurated in 1961, it still has not been possible to serve all of the business and industrial firms which have sought individual help. This series of reports, therefore, is offered as a means of broadening the base of service and extending the benefits of the industrial services program beyond the somewhat limited bounds of those companies that can be served directly. Through these reports, pertinent information developed during the course of individual assistance projects will be disseminated as widely as possible to business and industrial firms throughout the state.

It is fitting that this first report is concerned with the sources of capital for Georgia business and industry. Judging from the volume of requests for assistance in locating financial support for new and expanding businesses, this subject -- perhaps more than any other -- is of critical concern to the business and industrial community.

Comments concerning this report or other reports in this series are invited. Especially solicited are suggestions of subjects for future reports which will be of particular interest to those involved in the establishment and growth of business and industrial firms in the state.

Ross W. Hammond, Chief
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INTRODUCTION

The purpose of this report is to describe the sources of capital available to business in Georgia. Many papers have been written about the financial needs of business, especially small business, and whether these needs are being met satisfactorily. The impression created by some of these reports is that too many businesses are unable to obtain needed capital. Although this is certainly true in many instances, there are usually very sound reasons why certain firms have met with unsatisfactory borrowing experiences. At the same time, most lending institutions are realistic about their ability to meet the demands of business and will state quite frankly that there are a number of situations that they are unable to serve.

In general, a small, new company has less chance of finding outside financial help than any other type of firm. This is not to say that lending institutions are not willing to help a new venture; on the contrary, most of the institutions interviewed made a point of their desire to lend to this type of business. However, what they want to do and what is economically feasible are often two different things. Consequently, original capital for a business will most often come from the personal funds of the organizer, supplemented by funds from miscellaneous sources, principally banks, relatives and friends, suppliers, and direct mortgage financing. Established small firms have a much wider range of capital sources available, and the larger companies with successful sales records can usually choose from the full range of sources.

In a survey conducted by the Federal Reserve System to obtain information about the financing experiences of small corporate manufacturers, it was found that financing needs and success in obtaining funds differed widely among the three major types of financing covered in the survey -- short-term credit, long-term credit (including intermediate-term loans), and equity capital.[1/] Of the corporations that needed short-term credit, nearly three fourths were able to obtain such financing on terms and in amounts they regarded as satisfactory. However, fewer than three eighths of the corporations needing long-

1/ "Small Business Financing: Corporate Manufacturers," Federal Reserve Bulletin, January 1961.

term credit and only one eighth of all companies needing additional equity capital were able to meet their needs satisfactorily.

According to this same report, success in financing was also found to be related to the size of the business. Small companies usually had success in obtaining short-term funds, while one third of the small firms were able to get long-term credit, and only one tenth were able to obtain equity capital. On the other hand, medium-size and large companies had greater success in obtaining long-term and equity capital. Small business also found that success in financing was more closely associated with profitability than it was among medium-size and large companies.

In the following sections of this report, the different sources of capital are discussed in terms of the types of situations they are best able to finance. The sources are grouped by type -- private, quasi-public, and public, with separate treatment of federal sources and state and local sources. Table 1 summarizes the various sources by type of financing available and indicates by page number where a discussion of each can be found in this report. A guideline for the presentation of investment proposals is included as Appendix 2 following the discussion of the sources of capital.

Table 1

SUMMARY OF CAPITAL SOURCES BY TYPE OF FINANCING AVAILABLE

Sources of Capital	New Business				Established Business			
		Debt				Debt		
	Equity	Building	Equipment	Working Capital	Equity	Building	Equipment	Working Capital
Private Sources:								
Commercial Banks		5	5			5	5	5
Trust Companies and Trust Departments					8*			
Factors			8	8			8	8
Commercial Finance Companies			9	9			9	9
Life Insurance Companies		11			9*	11		
Investment Companies					11*			
Investment Bankers	12				12			
Individual Investors	13				13			
Commercial Paper Underwriters								13*
Savings and Loan Associations		14				14		
Foundations					14			
Venture Capital Organizations	14				15			
Quasi-Public Sources:								
Small Business Investment Companies	17			18	17			18
Federal Reserve Bank				19				19
Rural Electrification Administration			21				21	
Public (Federal) Sources:								
Small Business Administration		23	23	23		23	23	23
Area Redevelopment Administration		28	28	28		28	28	28
Department of Labor (MDTA)				29				29
Public (State and Local) Sources:								
Industrial Revenue Authorities		31*	31*			31*	31*	
Industrial Development Corporations		33				33		

Notes: Numbers following each source indicate that source provides loans for purposes specified and refer to pages in this report where discussion can be found.

Asterisk (*) indicates that source tends to restrict loans to large, well-established companies.

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PRIVATE SOURCES OF CAPITAL

Commercial Banks

Commercial banks are the most versatile source of capital and are approached for short and medium-term loans more than any other type of lending institution. On the whole, banks make every effort to satisfy the needs of a prospective borrower; when they are unable to meet the demands of the business, they usually feel that they have sufficient grounds for turning down the loan. Since banks must remain as liquid as possible, the most attractive loans from their standpoint are short-term loans. Short-term credit, used primarily as working capital, meets the needs of many businessmen since they can realize a return on the funds borrowed before the time to repay the loan. Seasonal loans are especially attractive since they tend to be self-liquidating. However, the businessman who needs capital to start a new business or to expand an existing business needs long-term credit.

Recently, commercial banks have become more interested in long-term loans, and now approximately one third of all bank loans are term loans. They generally have a maturity of five years but may run for longer periods. Most banks prefer to make term loans in order to finance land, buildings, and equipment, since the acquired asset can be used as security. In many cases, the bank will extend a line of credit to a company for the amount of collateral it has.

Banks, of course, prefer to lend to well-established businesses with proven success. They are somewhat hesitant to lend to new operations because of the lack of management experience. When they do lend to new ventures, they may require the lender to pay back the loan rather quickly, or they may attach certain provisions to the loan. The most frequent reason that banks turn down loans is that the owner does not have sufficient equity in the business. Lending officers feel that a businessman who has a good deal of capital invested in his own business is more likely to make the business a success. The Federal Reserve Bank of Atlanta listed the following reasons why banks in the sixth district rejected loans:[1/]

1/ "Credit Needs of Business Borrowers and Lending Policies and Practices of Commercial Banks in the Southeast," Monthly Review of the Federal Reserve Bank of Atlanta, August 1960.

Considered to be a frequent cause for rejection	Percentage of banks interviewed
Insufficient owner equity	84
Lack of deposit relationship	35
Slow or past due in payments	35
Questionable managerial ability	29
Requested maturity too long	26
Collateral of insufficient quality	23
Poor earnings record	23
Poor moral risk	19
Inadequate accounting system	19
New firms having no earnings record	13
Type of loan not handled	10
Line of business not handled	3

Regardless of the implications of the above tabulation, every lending officer has different criteria by which he judges the desirability of a loan. A prospective borrower may meet most of the bank's requirements and still be denied a loan purely on the basis of the bank official's judgment. This is to be expected; there is no firm rule by which a bank is required to make a loan.

Many businesses which have had a loan request turned down have made excessive demands on the bank or have not been willing to meet the bank's requirements. As a rule, when a bank demands that certain standards be met by the borrower before a loan is approved, the standards are rigidly maintained. This is emphasized only because too many businessmen have assumed that their loans would be approved without meeting these standards and have then blamed the bank when their loans were turned down.

In requesting funds, a business, whether small or large, new or established, should present as complete a picture of the company as possible in terms of the market potential of the business, sales figures, financial statements, and the financing needed. A general outline of a prospectus which will be helpful in securing capital is included as Appendix 2.

In general, the bigger banks in Georgia are more receptive to lending on a long-term basis than the smaller banks. However, this is not always true. If a prospective borrower has an excellent relationship with a small bank, he would be unwise to apply at a larger bank where he has had no personal contact. The small bank will already be acquainted with his management ability and, if the size of the loan is larger than they can extend, they can recommend the borrower to their correspondent bank or arrange participation loans through their correspondent banks or through the Small Business Administration. Personal contact should not be overlooked; many banks will extend loans simply out of respect for the personal ability of the borrower, rather than on the merits of the business.

Interest rates, collateral required, and loan terms are all flexible. Ordinarily, interest rates at banks are lower than at most other financial institutions, but this will depend, of course, upon the business desiring the loan. Small businesses are charged somewhat higher interest rates than large businesses. In times of tight credit, interest rates rise for the larger firms as well as the smaller firms. Small business must usually secure the loan by more collateral than large and medium-size business, and in some cases a cosigner is required on loans to new ventures. However, these requirements vary not only from business to business, but also from bank to bank.

Small Business Administration participation loans are another useful means of securing bank loans. In 1964, the SBA granted 147 participation loans in Georgia, representing a total of $8,057,000 and an average of $54,800 per loan. These loans were granted in 102 different cities throughout the state.[1/] Participation loans account for most of the SBA loans in Georgia. A loan of this type permits a small bank to make a loan beyond what its ordinary lending limit would be. The SBA is anxious for small banks to get participation loans from their city correspondents, but many prospective borrowers have heard about the lending policies of the SBA and therefore request SBA participation loans.

SBA loans are, of course, limited to small businesses and are supposed to be the last resort for a small business borrower. However, so many banks have requested participation loans from the SBA that the agency has made these loans with increasing frequency. The bank usually services the loan, thus eliminating some of the administrative details of direct SBA loans. In the case of venture capital, the SBA demands at least a one-to-one ratio of equity to loan funds. For a further discussion of participation loans, see the Small Business Administration section of this report.

1/ Small Business Administration Regional Office, Atlanta, Georgia.

Trust Companies and Trust Departments

Trustees have a responsibility to administer the funds under their supervision with complete integrity and to preserve the capital value of the trusts to the best of their ability. Just how the trustees invest the funds under their care depends upon the terms of the will or the trust agreement. If the will or the trust specifies the manner in which funds are to be employed or the types of investments to be made, the trustee is obligated to follow the terms. In recent years, however, there has been an increasing tendency to permit the trust officer to use a certain amount of discretion in his selection of investments.

As a rule, trustees tend to invest in the more conservative types of corporate bonds and preferred and common stock, as well as in federal, state, and municipal obligations. A businessman with a successful business in need of capital should not pass up the opportunity to discuss his needs with the trust department of his bank. Many times a trust officer will have an account that will give him the discretion to make investments in smaller companies where he feels the rate of return on the investment will be worthwhile. Trust funds are not a source of risk capital or venture capital; they may only be used for low-risk loans.

Factors

Under most factoring programs all accounts receivable, except cash sales, are sold to the factor without recourse. Factoring thus provides instant cash in return for a company's accounts receivable and eliminates the expense of credit checking, collections, bad debts, and accounts receivable bookkeeping details.

For assuming these risks and responsibilities the factoring company's charges fall into two categories: (1) a stipulated commission for checking credit, assuming the credit risk, ledgering and collecting receivables and (2) an interest charge on monies advanced prior to the average invoice maturity date. Businesses that sell on the installment plan and those that find they must give relatively long credit terms will find this a logical method of financing, particularly if accounts receivable constitute a large part of their assets. While factoring is a common source of money in the textile industry because of the seasonal nature of the business, it is used in all industries where sales are made on open account terms.

The names and addresses of the major factors operating in the Southeast are listed in Table 2. Some of these have local offices, while others have representatives traveling in the area.

Commercial Finance Companies

Commercial finance companies differ from factors principally in that they do not buy accounts receivable, but lend money secured by a pledge of accounts or notes receivable. Such financing is usually provided on a nonnotification basis. No notification is made to the account, and the borrower assumes the responsibility for collection of its accounts and ultimate repayment of the loan to the finance company. Borrowing rates average about 10% to 12% per year, simple interest.

The big commercial finance companies in Georgia are interested in sound companies. There is no venture capital available, and the big companies do not make small loans. These firms also have advanced into other areas such as providing inventory loans and financing installment equipment purchases and installment consumer sales. Most of the factors listed in Table 2 also provide the same services as commercial credit companies. In applying for loans at these big firms, a businessman should be sure to provide audited statements and balance sheets to the factors and finance companies.

Life Insurance Companies

Business may be financed by insurance companies in a number of ways. The most common way is for an insurance company to buy stock in a corporation. Less than 3% of insurance assets are used for the ownership of common stock, and most of this type of investment is in large, well-established business.

Smaller business financing is almost entirely long-term and is usually done through the real estate mortgage department, so that the amount of funds a small firm may obtain is dependent upon the value of the real estate it owns. A small company also may be financed by a loan secured by the borrowing company's physical assets, or by an advance made upon insurance on the life of one or more of the proprietors, or, in some instances, private placement of a note or bond of the borrower for a certain term of years. An insurance company

Table 2

MAJOR FACTORS OPERATING IN THE SOUTHEAST

Atlanta

Commercial Bankers Discount Corp.
270 Peachtree Street, N. W.
Atlanta, Georgia

Diversified Holding Corp.
1720 Peachtree Street, N. W.
Atlanta, Georgia

Eastern General Factor Corp.
535 North Central Avenue
Hapeville, Georgia

Georgia Economics Corp.
Walton Building
Atlanta, Georgia

Georgia Factors, Inc.
1430 West Peachtree Street, N. W.
Atlanta, Georgia

Georgia Investment Corp.
3485 Northside Parkway, N. W.
Atlanta, Georgia

Walter E. Heller & Company
Fulton National Bank Building
Atlanta, Georgia

Joel Hurt Factors Dept. of Citizens & Southern National Bank
Glenn Building
Atlanta, Georgia

Mill Factors Corp.
Bank of Georgia Building
Atlanta, Georgia

National Factor & Investment Corp.
1447 Peachtree Street, N. E.
Atlanta, Georgia

Nationwide Discount Corp.
1447 Peachtree Street, N. E.
Atlanta, Georgia

Northeast Factor & Discount Co., Inc.
3109 Briarcliff Road, N. E.
Atlanta, Georgia

Piedmont Factors, Inc.
3110 Maple Drive, N. E.
Atlanta, Georgia

Professional Discount Corp.
3151 Maple Drive, N. E.
Atlanta, Georgia

Southeastern Factor & Finance Corp.
615 Peachtree Street, N. E.
Atlanta, Georgia

Southern Acceptance Corp.
270 Peachtree Street, N. W.
Atlanta, Georgia

James Talcott, Inc.
Healey Building
Atlanta, Georgia

Trust Company of Georgia
36 Edgewood Avenue, N. E.
Atlanta, Georgia

Charlotte

Southeastern Financial Corp.
P. O. Box 1377
Charlotte, North Carolina

New York

AIC Financial Corp.
529 Fifth Avenue
New York, New York

H. A. Armstrong Company, Inc.
850 Third Avenue
New York, New York

Coleman & Company
468 Park Avenue, South
New York, New York

Crompton Richmond Company, Inc.
111 West 40th Street
New York, New York

Iselin-Jefferson Financial Company, Inc.
111 West 40th Street
New York, New York

Table 2 (continued)

MAJOR FACTORS OPERATING IN THE SOUTHEAST

New York (continued)

William Iselin & Company, Inc.
537 Park Avenue, South
New York, New York

John P. Maguire & Company, Inc.
370 Park Avenue, South
New York, New York

Meinhard Commercial Corp.
1 Park Avenue
New York, New York

Textile Banking Company, Inc.
55 Madison Avenue
New York, New York

United Factors
(Division of United Merchants & Manufacturers, Inc.)
1407 Broadway
New York, New York

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is not willing to take unnecessary risks, and venture capital is not considered to be a goal of insurance companies. However, because of the tremendous amount of assets they have, insurance companies have become interested in providing smaller firms with risk capital. One indication of this is that insurance companies represent some of the main investors in small business investment companies. Although the tax advantages of this type of investment are obvious, many insurance firms are genuinely interested in helping smaller businesses.

Some insurance companies have separate departments to make "equity loans" to smaller businesses. They make such loans to render a basic economic service and to provide future investment outlets as the companies grow and prosper. Insurance firms are stimulated also by the likelihood of increased taxation of income from the securities they hold, and they are increasingly seeking capital gains as well as income from common stocks. Each insurance company will have different investment aims, and a potential borrower should investigate a company's policies before assuming that it will not supply capital in some way.

Investment Companies and Investment Bankers

A few investment companies are geared to growth companies and will provide needed capital to medium-size corporations. However, the general aim of investment companies is to invest in the securities that will provide the most profit for their shareholders. Investment companies had total assets of $25 billion at the close of 1962, but their assets are generally available cnly for certain purposes.[1/] They do not make business loans in the sense that banks do, nor do they normally make funds available to the smaller businesses. Most avoid speculative issues and concentrate on high quality corporate issues. For the most part, the size of their investments and the need for liquidity limit their interest primarily to securities with an active market.

Stock issues are one of the best devices for obtaining long-term capital, especially for large, well-established corporations. However, more speculative issues are often handled by investment bankers. In the case of large corporations, the broker may buy the entire issue, contracting to pay the full purchase price on a specified date. This is known as firm underwriting. A "best effort issue" is the device used for the more speculative issues. In this case, the firm will do its best to sell the issue, but it is under no contract to sell the entire issue. Typically, issues of $300,000 or less are sold in this manner.

Although investment banking houses are not a source of capital themselves, they may invest for their own account, or they may refer the matter to private investors interested in speculative ventures, when equity issues of more than usual attractiveness are offered.

Securities of small, relatively unknown companies are generally not attractive to the ordinary investor because they usually lack marketability and stability and often regular income. Such securities, however, may be attractive to individuals in high tax brackets who are interested in capital gains and therefore have an incentive to buy them if properly set up and managed. It is the investment banker's function to find such prospective investors and to set up financial structures that will appeal to them.

Small businesses normally do not find the public offering route open to them. Investment banking houses are reluctant to make a public offering if the limited supply of shares available precludes there being a sufficient number of shareholders to provide even the minimum requirements of marketability.

The best way to select an underwriter is to consult with the company's attorney or accountant, since they are usually familiar with a number of firms

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1/ W. C. Hanson, Capital Sources and Major Investing Institutions, Simmons-Boardman, New York, 1963.

and are able to recommend a firm that would best satisfy the company's needs. No matter which firm the business selects, it is important to present a well-worked-out prospectus to potential stockholders.

Individual Investors

Small businesses can issue stock and debentures through private placements to friends of the owner or through sale of securities to employees of the corporation. Friends of the owner are perhaps the major source of equity funds for a new or small business, since they are familiar with the ability of the management.

In the case of an established business, it is important that additional equity capital be raised while the outlook for the company is favorable and its performance is good. If the search for funds is delayed until all other sources have been exhausted, bargaining power is weakened. Management will also want to select the type of arrangement which will best protect the owner's control. There are any number of ways to assure control; one of the best is to issue both common stock and debentures or preferred stock. Investors in small companies usually demand the voting privilege that attaches to common stock, but they may accept a combination of common stock and debentures, preferred stock, or convertible debentures, so that the owner's equity is not diluted to the extent it would be if he had issued only common stock. The company's accountant will be familiar with the type of arrangement which will best satisfy management's interests and also appeal to investors.

In seeking equity capital, a business must carefully prepare a prospectus of the business. This presentation should include a comparative balance sheet, a record of past earnings, management organization, banking connections, and actual customers and potential market. The nature of competition and the advantages the company has over competition should be included, as well as manufacturing costs and plans for manufacturing improvements. All of these details should be included in the presentation to a prospective stockholder.

Commercial Paper Underwriters

Commercial paper underwriting is one of the most economical methods of obtaining short-term funds. However, the borrower must be a well-established business with a strong credit rating; he must also meet certain specifications as to earnings, assets, etc. If the borrower is qualified, he sells a promissory note for the agreed-upon sum to the underwriter, at a small discount from face value; the underwriter in turn resells the note to commercial banks or other purchasers. Such promissory notes are always for relatively short periods, with maturities rarely exceeding nine months. When the note comes due, the borrower simply repays the underwriter.

The advantages of this type of financing include the ease, flexibility, and relatively low cost of the loan. Costs are usually less than what it would cost to obtain the same amount from a commercial bank.

However, commercial paper underwriters deal only with strong corporations. Other businesses, even if they qualify for commercial paper financing, will pay higher rates since their size and credit standing vary from those of the prime business concerns in the nation.

Savings and Loan Associations

Less than 5% of the assets of savings and loan associations are devoted to industrial loans, and all of these loans are secured by mortgages on real property. The main aims of these associations are to accept savings accounts from the public and to grant mortgage loans on residential and nonresidential income-producing property. They make no venture loans. However, they will grant first mortgages on property owned by business.

Foundations

Although foundations exist to perform a benevolent community service, they do represent a huge pool of capital and have been known to invest in business. Some foundations will lend capital to corporations and individuals, but usually only to those businesses which fall into the main purpose of the foundation. A foundation in a businessman's community may be of some help or may be able to direct a potential borrower to a foundation that can help.

Venture Capital Organizations

Some firms in need of equity capital may find it worth while to consider the possibilities offered by venture capital organizations. These organizations are willing to invest their funds in new or relatively undeveloped industries showing growth prospects.

A representative but not all-inclusive list of the principal venture capital enterprises would include:

American Research and Development Corp., Boston, Mass.
New Enterprises, Inc., Boston, Mass.
Henry Sears and Co., New York, N. Y.
J. H. Whitney and Co., New York, N. Y.
Payson and Trask, New York, N. Y.
Rockefeller Bros., Inc., New York, N. Y.
Wm. A. M. Burden and Co., New York, N. Y.
Industrial Capital Corp., San Francisco, Calif.
Fox, Wells and Rogers, Stamford, Conn.

as well as all SBICs which are discussed on the following page.

Venture firms are usually looking for new products or processes, rather than services. They tend to finance projects that have proven to be fairly successful but need additional capital for commercialization of the product. They also place a great deal of emphasis on the quality of management. Venture capital companies insist upon holding common stock in a financed company or upon receiving a stock option to buy at a predetermined price. The minimum investment is about $100,000.

Venture capital firms get thousands of applications a year and have to reject most of them. However, a firm with a product that has good growth potential, especially in the electronics field, may have a great deal of success in acquiring funds from one of the venture capital companies.

QUASI-PUBLIC SOURCES OF CAPITAL

Small Business Investment Companies

In an effort to relieve the shortage of long-term financing for small business, Congress enacted the Small Business Investment Act of 1958. This act authorized the Small Business Administration to license, regulate, and help finance Small Business Investment Companies (SBICs). SBICs are privately owned and privately operated corporations which expect to return a profit. They are restricted in their activities to equity financing, long-term loans, and consulting and advisory services to small concerns. The SBA has nothing to do with the arrangements between a businessman and the SBIC.

"Small" business is defined as one which does not have assets exceeding \$5 million, does not have a net worth in excess of \$2½ million, does not have an average net income after taxes for the preceding two years in excess of \$250,000, and is not dominant in its field of operation.

SBICs may finance small business by the purchase of any types of equity security or through long-term loans. Equity financing may be provided to an incorporated small business through any type of equity securities, including certificates of stock of any class, or securities evidencing a debt if they are convertible to stock of the company or carry stock purchase rights or warrants. Most SBICs are interested in having some equity position in the companies they finance.

Convertible debenture financing is, in many ways, the ideal method of providing risk capital to small businesses under this program. Such debentures, purchased from the small business by the SBIC, must be convertible (up to the face value of the debenture and at the SBIC's option) into stock of the company at a price per share determined by the borrower and the SBIC when the debentures are issued. The proportion of the capital stock, representing part ownership and voting control, which the SBIC can obtain through conversion must be negotiated at the time the agreement is made for financing. Usually SBICs do not pursue a policy of acquiring control of the small businesses they finance, but the small business management should pay particular attention to this element in the terms to be negotiated. The SBA, however, will not permit a financing arrangement under which the SBIC will acquire equity ownership exceeding 50% of the business being financed.

Convertible debentures or other types of financing must state a minimum maturity of five years. They must also contain a clause which permits repayment on any interest date, provided three months' notice is given.

The SBIC is authorized to require as a condition of convertible debenture financing that the business not enter into any "outside" debt financing during the term of the obligation without giving the SBIC the first opportunity to provide such financing.

Long-term loans may be made to both incorporated and unincorporated companies. In fact, if the firm is not incorporated, the SBIC may only make loans. The borrower will usually be asked for reasonable security and a mutually satisfactory schedule of repayment. Maturities of loans may not exceed 20 years, although the maturity may be extended or the loan renewed for additional periods, not exceeding 10 years, if the investment company finds that such an extension will aid in the liquidation of the loan. The interest rates may not exceed the maximum rate permitted by local law and range from 6% to 15%.

No matter what type of financing the firm chooses, the management skills of the SBIC will be available to the borrower, at a fee. Naturally, if an SBIC has an equity interest in a business, it will want to participate in the management of the firm. The smaller SBICs are usually not equipped to handle any consulting services, but the bigger investment companies many times have a staff that may provide excellent management advice. In choosing an SBIC, it is worth while to look into the management services available. If an SBIC does provide this service, the borrower should be sure that the management skills are good and that the staff is familiar with the borrower's field, or the small business management may find that they are getting advice that they would be better off without.

In order to obtain SBIC financing, the prospective borrower must present a complete picture of his company's financial position and requirements. This is true of any type of financing, but it is so important that it bears repeating.

Many SBICs have a tendency to invest in the more glamorous industries, such as electronics and data processing, and the larger firms are usually not interested in deals which involve less than $400,000. However, there are so many types of SBICs that one might be responsive to a certain firm, while another would not be encouraging at all. If a borrower has a good relationship with his bank, then perhaps a bank-affiliated SBIC would be helpful. A list of SBICs which operate in Georgia is shown in Table 3. An initial survey of these firms would be helpful to see if they could serve the borrower.

In surveying the SBICs in Atlanta, there was an almost unanimous feeling concerning venture capital. Obviously a new business is a risky undertaking and, although many SBICs will undertake venture financing if the product has a promising future, most SBICs, like most other sources of investment capital, are reluctant to finance new firms. They prefer to lend to established companies that need capital to promote a new product or to break into a new market.

Federal Reserve Bank

The Federal Reserve Bank in Atlanta will lend money directly to businesses when the latter cannot get money from the usual sources at reasonable rates. These loans are limited to five years or less, are to be used only for working capital, and are available only to established businesses. They are called emergency loans and must be taken only for emergency purposes. The Atlanta Federal Reserve Bank has had few requests for emergency loans, and they must be sent to Washington for approval.

Rural Electrification Administration

The Rural Electrification Administration (REA) lends money to rural electric cooperatives, public utility or power districts, municipalities, and power companies to enable them to furnish electricity to rural residents who do not have central station electric service. REA loan funds may be used to finance facilities serving farms and nonfarm rural people, rural industries, and other rural enterprises.

In the making of electrification loans, preference is given by law to public agencies, cooperatives, and nonprofit limited-dividend associations. Loans are available for the construction of electric generation and transmission facilities or for increasing the capacity of existing lines. Eligible borrowers may obtain loans for financing the installation of wiring and for the acquisition and installation of electrical and plumbing appliances and equipment, including machinery on farm and nonfarm premises. Thus a manufacturing plant located on REA lines may apply to the local cooperative or power company for a loan for machinery and equipment.

Table 3

SMALL BUSINESS INVESTMENT COMPANIES LICENSED TO OPERATE IN GEORGIA

<u>Georgia</u>

Citizens & Southern Capital Corp.
Marietta and Broad Streets
P. O. Box 4899
Atlanta, Georgia 30302

Continental Equity Corp.
Atlanta Merchandise Mart
240 Peachtree Street, N. W.
Atlanta, Georgia 30303

Dixie Capital Corp.
509 Standard Building
44 Broad Street
Atlanta, Georgia 30303

First American Investment Corp.
914 New Walton Building
87 Walton Street
Atlanta, Georgia 30303

Georgia Capital Corp.
2603 Bank of Georgia Building
34 Peachtree Street, N. W.
Atlanta, Georgia 30303

Georgia Southern Business Equities, Inc.
Surlington Plaza Shopping Center
Macon, Georgia 31208

Investor's Equity, Inc.
26 Pryor Street, N. E.
Atlanta, Georgia 30303

Mome Capital Corp.
861 Main Street
Thomson, Georgia 30824

Peachtree Capital Corp.
John Hancock Building
230 Houston Street, N. E.
Atlanta, Georgia 30303

Small Business Investment Corp. of Georgia
22 Marietta Street, N. W.
Atlanta, Georgia 30303

Southeastern Capital Corp.
215 Piedmont Avenue, N. E.
Atlanta, Georgia 30312

Transamerica Capital Corp.
1 South Oakwood Drive
Savannah, Georgia 31404

<u>Louisiana</u>

L. P. Gas Capital, Inc.
Country Club Road and Mandeville Highway
Covington, Louisiana 70433
(Area of operation: Louisiana, Mississippi, Alabama, Georgia, Florida)

<u>South Carolina</u>

First Investment Capital Corp.
General Trust Building
Aiken, South Carolina 29801
(Area of operation: South Carolina, Georgia)

<u>Note</u>: In addition, SBICs in other areas may provide financing in Georgia upon direct application by a Georgia company.

A loan is generally made for a period of 10 years. In cases of demonstrated need, it may be made for a longer period, but not to exceed two thirds of the estimated life of the equipment. No loans are made directly to the consumer; instead, the funds are loaned to electric systems operated by REA borrowers for relending to consumers in the service areas. The rate on all REA loans is 2%; the maximum loan period is 35 years.

PUBLIC SOURCES OF CAPITAL (FEDERAL)

Small Business Administration

The Small Business Administration is responsible for many programs affecting the small businessman. However, this paper is concerned only with the lending program of the SBA. The SBA may make intermediate-term and long-term loans to small business firms that cannot secure such financing through conventional channels. It will not supply equity financing. It will not lend to a firm that can secure financing elsewhere, nor will it supply credit to a business by itself if it can prevail upon a conventional financing institution to participate with it in the loan.

For business loan purposes, SBA defines a small business as one that is independently owned and operated and is not dominant in its field. A manufacturing concern is generally considered small if its average employment in the preceding four quarters was 250 or fewer persons. In certain industry categories, the average employment may be 1,000 or less. In addition to qualifying as a small business, the loan applicant must meet the following general credit requirements established by the SBA:

1. The applicant must be of good character.
2. He must have good management ability.
3. He must have enough capital in the business so that, with the SBA loan, it will be possible to operate on a sound financial basis.
4. The loan must be of such sound value or must be so secured that repayment will reasonably be assured.
5. The past earnings record and future prospects of the firm must indicate ability to repay a loan out of income from the business.
6. In the case of a new business venture, the applicant usually is expected to provide funds approximately equal to the amount of the desired loan.

Loans may be made for business construction, conversion, or expansion; purchase of equipment, facilities, machinery, supplies, or materials; and working capital.

The maximum amount that may be borrowed from SBA by one business is $350,000. This maximum applies to the agency's share of a participation loan and to a direct SBA loan. On a percentage basis, the maximum SBA participation in a loan is 90%.

There are four basic programs that have evolved to make up the SBA's current lending program:

1. Direct or Immediate Participation Loans
2. Simplified Early Maturity Plan
3. Simplified Bank Participation Plan
4. Loan Guarantee Plan

Direct or Immediate Participation Loans

Maximum amount: $350,000 to any one borrower. If a participation, this is the maximum amount of SBA's share.

Interest rate: 5½% per annum, except that the bank may set its reasonable and legal rate on its share of the participation loan.

Maturity: Maximum of 10 years, except that working capital loans are limited to six years.

Collateral: Real estate or chattel mortgage, assignment of warehouse receipts for marketable merchandise, assignment of certain types of contracts, guarantees of personal endorsements. Basically hard collateral.

Participation: A bank can participate for at least 10% of this loan. Until recently, banks had the option of deferring the SBA participation until such time as it might be needed. However, this concept has been replaced with the SBA's new Loan Guaranty Plan which is described below.

Simplified Early Maturity Plan

This plan is designed to simplify the application and processing of an Early Maturity Plan. Consequently, the bank must take at least 50% of the total loan. Here the SBA relies heavily on the credit analysis of the participating bank. It is anticipated that at the time the bank's portion has been paid out, the bank will renew the total loan and take over the remaining SBA portion. Under this simplified plan, less stringent collateral requirements can be allowed.

Simplified Bank Participation Plan

This plan is designed to assist in participating "strong credits" and requires that the proceeds be used as "new money." The same requirements hold for this plan as the above, except that the bank must take at least 25% of the total loan and, here again, the SBA relies heavily on the credit recommendations of the bank.

Loan Guarantee Plan

In the summer of 1963, the agency announced the inauguration of a plan whereby the SBA will enter into an agreement to purchase up to 90% of the outstanding balance of the loan upon default of the loan. For this guaranty, a fee of 1% is charged if the bank wants the SBA to guarantee more than 75% of the loan, and a fee of 1/2 of 1% if the SBA is to guarantee 75% or less of the loan. While this plan does not provide that SBA must purchase their guaranteed portion of the loan at any time at the bank's request, as did the former deferred participation plan, it does provide that SBA can make a liquidity advance to the bank up to 90 days during any 12-month period for 100% of the SBA's share, at a rate of 4 1/2%. One of the main advantages of this plan is that it permits a small bank to make a loan beyond what its ordinary lending limit would be, since the part guaranteed by SBA is not counted against the bank's limit. This plan also permits the bank to insure a portion of its risk, so that it will not hesitate to extend large sums that are often needed by the industrial enterprises in its community.

The time required for an SBA decision on a loan application varies from two days to three weeks, depending on the care the applicant has taken in preparing his loan application. The Atlanta Regional Office has authority to approve up to $150,000 on Simplified Loan Participation applications, $50,000 on Direct Loans, and $100,000 on Immediate Participations. Applications for amounts in excess of the above are approved in Washington. If a participation, the SBA will issue a commitment letter to the bank upon approval, and at any time thereafter, the bank can issue the funds and call upon the SBA to remit its portion.

Servicing of all participating loans is left to the bank, and the bank is given 1/2 of 1% for servicing if its part is over 25% of the total loan and 1/4 of 1% if its part is less than 25% of the loan. Servicing of direct SBA loans in Georgia is handled out of the Atlanta Regional Office.

The pattern of SBA loans in Georgia can be detailed for 1964. In that year only 33.5% of the total loans made by SBA were direct. These 74 direct loans totaled $1,100,000. The average direct loan made was $14,860. Also in 1964 the SBA granted 147 participation loans totaling $8,057,000, with the average participation loan being $54,800. These loans were granted in 102 different cities throughout the state.

The SBA rejection rate in Georgia is approximately 40% of filed applications. In addition, many inquiries are screened out and applications are not filed.

One criticism which has been leveled against SBA loans by banks is that when a bank refers a client that it has already turned down, the SBA will often press the bank to participate in a loan which it has already rejected. In addition, the low interest rate charged by the SBA has been questioned by some financial institutions. However, there is no indication that the SBA desires to compete with the financial community; rather it seriously attempts to simply augment loans made to small business.

In redevelopment areas designated by the Economic Development Administration and in certain areas of substantial unemployment designated by the Department of Labor (see section below), the SBA has reduced its interest rate to 4%.

Another program of the SBA is to grant loans to state and local development agencies to help small firms. This feature of the SBA is discussed in a later section of this report.

Economic Development Administration

The Economic Development Act (EDA) of 1965 provides low-interest, long-term loans to businesses expanding or establishing plants in designated redevelopment areas. (Table 4 lists the Georgia counties designated as redevelopment areas.) Loans of up to 65% of the total project cost (including land, buildings, machinery, and equipment) may be made for up to 25 years at a rate of interest based on federal borrowing costs. These loans will be made for projects which cannot be accomplished by financing solely through banks or other lending institutions. Federal guarantees for working capital loans made by private institutions in connection with these projects are also available.

At least 15% of the total cost of the project must be supplied either in the form of equity capital or as a loan subordinated in lien position to that of the federal loan. One third of this 15% must ordinarily be provided either by the state or by a public or quasi-public community or area organization. In exceptional cases, because of the economic distress of the area, or for other reasons, the 5% state or local participation requirement may be waived by the Secretary of Commerce. In such cases, it may be supplied by the applicant firm or by some other nonfederal source.

Applications will be evaluated on the basis of economic and technical soundness and the employment potential the projects will create in a given

Table 4

GEORGIA COUNTIES DESIGNATED AS REDEVELOPMENT AREAS UNDER THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

Atkinson	Lincoln
Bacon	Lumpkin
Baker	Macon
Baldwin	Marion
Banks	McIntosh
Barrow	Meriwether
Berrien	Miller
Brooks	Mitchell
Bryan	Montgomery
Bulloch	Morgan
Burke	Murray
Calhoun	Oglethorpe
Candler	Paulding
Carroll	Pierce
Chattahoochee	Pike
Clay	Polk
Coffee	Pulaski
Crisp	Quitman
Dade	Rabun
Dawson	Randolph
Dooly	Schley
Dougherty	Screven
Early	Seminole
Echols	Stewart
Elbert	Sumter
Fannin	Talbot
Forsyth	Taliaferro
Franklin	Tattnall
Gilmer	Taylor
Glascock	Telfair
Gordon	Terrell
Green	Toombs
Habersham	Towns
Hancock	Treutlen
Hart	Turner
Heard	Twiggs
Henry	Union
Irwin	Walton
Jasper	Warren
Jefferson	Washington
Jenkins	Wayne
Johnson	Webster
Jones	Wheeler
Lanier	White
Laurens	Wilcox
Lee	Wilkes
Liberty	Worth

Note: Other areas may be designated as redevelopment areas at the discretion of the Secretary of Labor.

area. However, no loan will be made to assist establishments relocating from one area to another, nor will a loan be made if its approval would contribute to excessive long-range underutilization of industry capacity.

Working capital loans made by private lenders to projects in redevelopment areas financed under the direct loan provisions may be guaranteed, upon application by the lender, for up to 90% of the outstanding unpaid balance of the working capital loan. These guarantees will be available only when working capital is otherwise unavailable from private sources.

Detailed information on application procedures may be obtained from the office of the Economic Development Administration in Atlanta, Georgia.

Department of Labor (MDTA)

Under the provisions of the Manpower Development and Training Act, the U. S. Department of Labor will help pay the costs of on-the-job (OJT) training programs. The OJT program was developed in order to reimburse employers for costs incurred in training unemployed persons, retraining workers whose skills have become obsolete, or providing training in new skills or occupations. OJT funds are available to reimburse job instructor fees, pay for materials used in training, and pay for instructional material.

For example, a company with a new process for manufacturing an item would be eligible for OJT funds. The owner would estimate employment needs, trainees' wages, cost of instructors (usually the owner, production manager, or somebody with the company who is familiar with the process), and the cost of materials that are wasted in training. If the application to the Department of Labor is approved, the company will receive payment for the estimated costs of the re-training, usually in monthly installments, until the training is completed. The program requires that the occupation be such that more than two weeks of training are necessary. A limit of 52 weeks has been set to complete training.

Applications for OJT funds should be filed at the Department of Labor field offices. In Georgia, field offices are located in the following cities:

Atlanta: Room 552, 1371 Peachtree Street, N. E.
Columbus: 126 Wynnton Building, 2210 Wynnton Road
Savannah: 201 Post Office Building, P. O. Box 121

PUBLIC SOURCES OF CAPITAL (STATE AND LOCAL)

Industrial Revenue Authorities

Georgia law provides that any county that so desires may approve a local amendment to the Georgia Constitution which would set up a city or county revenue authority. The authority may issue revenue bonds to finance industrial development. The bonds are repayable solely from revenues received from the projects undertaken by the authority and are not a debt of the city or county. If the authority builds a plant, the bonds are backed by the anticipated income of leasing the plant to the company. The bonds are exempted from state and local taxes, as are the lands and improvements owned by the authority.

Proceeds from the sale of revenue bonds may be used to purchase land, construct plants, and buy machinery and equipment to the specifications of new resident companies. The bonds may be marketed through investment brokers or sold to local sources.

According to the Industrial Survey of Georgia, revenue bonds are attractive for the following reasons:[1/]

1. A fully equipped plant may be occupied on a lease or lease-purchase arrangement without any capital outlay.
2. Financing costs less because revenue bonds usually bear less interest than other going mortgage rates.
3. Financing can be arranged quickly without red tape.

Because the public will buy revenue bonds only if they are assured that the company is reliable, this type of financing generally involves fairly large corporations. Revenue bond financing has come in for its share of criticism, the main point being that corporations have been "lured" to communities that are unsuitable locations. This criticism hardly seems valid in view of the fact that there are close to 100 city and county authorities in effect in Georgia alone, and out of that number a suitable location can surely be found. A more reasonable criticism is that revenue bonds help to finance corporations that usually are able to finance their own plants and expansions.

Map 1 shows the cities and counties in Georgia which have industrial revenue authorities.

1/ Georgia State Chamber of Commerce, Industrial Survey of Georgia, 1965.

MAP 1
INDUSTRIAL REVENUE AUTHORITIES IN GEORGIA

SOURCE: Georgia State Chamber of Commerce, Industrial Survey of Georgia, 1965.

Industrial Development Corporations

Industrial development corporations are enterprises incorporated under the laws of the state for the purpose of furthering the economic development of a community or area and with the authority to promote and assist the growth and development of small business concerns within its area. In Georgia there are three types of development companies -- those privately financed through the sale of stock and operated for profit, those privately financed through the sale of membership certificates and/or by contributions and operated nonprofit, and those municipally financed through the sale of revenue bonds.

The purpose of community development corporations is to finance and construct industrial buildings for responsible firms that desire to purchase a facility on a time payment plan or to lease such properties, usually with purchase options.

The Small Business Administration may make loans to local development companies for use in assisting specific small business. The SBA may lend up to $350,000 for each business that is to be assisted.

The SBA requires that the ownership and control be vested in individuals who reside or do business in the specified area of operations, so that the organization is a community undertaking. The local ownership and control of the development company should be not less than 75% of the total. In applying for SBA funds, the company must produce evidence that the requested funds are not available from private sources. A development company itself generally is required to provide from its own funds at least 20% of the cost of a project, but since the primary object of the program is to increase employment, the credit criteria considered in approving loans may be liberalized. The interest rate on the SBA's share of the loan is 5½% yearly, and the loan may have a maturity of up to 25 years. In redevelopment areas, the interest rate is based on federal borrowing costs, currently around 4%. The SBA provides that the development company may contract for a small business concern's use of a facility by any of the following methods:

1. by lending the small business funds with which it constructs the facility and by accepting the firm's promissory note, with the firm obtaining clear ownership when the note is paid;
2. by selling to the small business the completed facility;

3. by leasing the facility to the small business with option to buy, the rental payments being accepted as installment-purchase payments; or

4. by leasing the facility to the small business, without option to buy.

As of June 1965, 28 Georgia development companies had taken advantage of this type of loan for a total of $3,641,200 of SBA funds. Two examples of the type of financing arrangements made under this program follow:

Senoia, Georgia
Senoia Industrial Development Corp.
Textile Mill

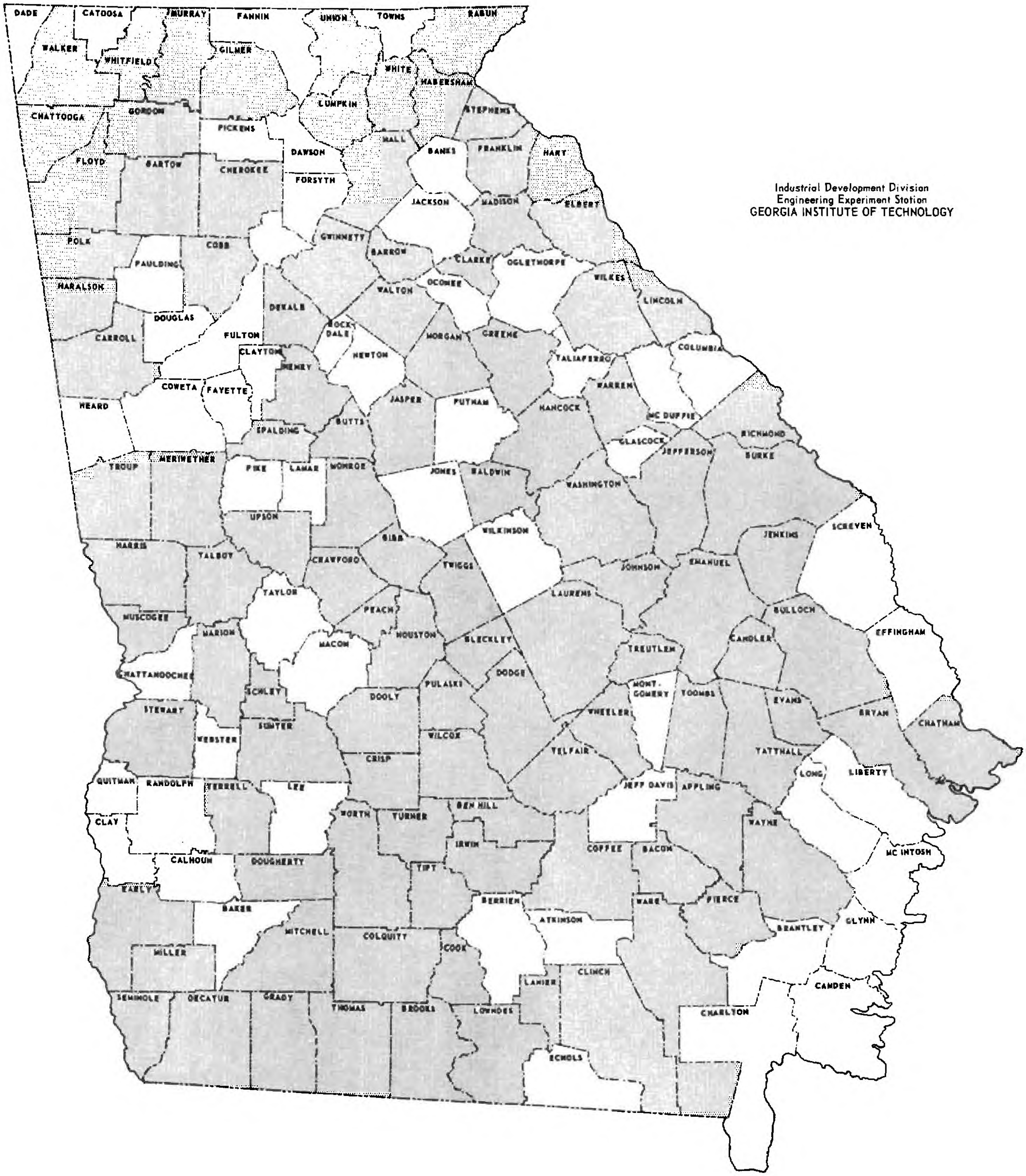
Project cost	$313,346
Local financing	63,346
Bank financing	25,000
SBA loan	225,000

Elijay, Georgia
Gilmer County Industrial Development Corp.
Poultry Processing

Project cost	$292,032
Local financing	58,032
Bank financing	None
SBA loan	234,000

Map 2 shows the counties in Georgia which have industrial development corporations.

MAP 2
COUNTIES WITH ONE OR MORE INDUSTRIAL DEVELOPMENT CORPORATIONS



APPENDICES

Appendix 1
FEASIBILITY CHECKLIST

These guidelines have been suggested as a basic check list for use in evaluating the feasibility of new ventures.

1. Market Potential

Define the market for the product!

- -- local?
- -- regional?
- -- national?

How is this market documented?

- -- letters of intent from prospective customers?
- -- personal word-of-mouth "survey" by the applicant?
- -- firm orders on an "as, if, and when" basis?
- -- a market survey carried out by a recognized, disinterested professional?
- -- a recognized shortage of the product in relation to demand?

Is the market for this product apt to be long-term or is it:

- -- a flash-in-the-pan, a novelty item?
- -- a product liable to rapid technological obsolescence?
- -- a staple item with only small growth potential?

What kind of competition does this product face?

- -- is it strong nationally but relatively minor locally or regionally?
- -- is it oriented to price or quality?
- -- has it strength in technology or merchandising ability?
- -- is it long established (e.g., well-known brand) or relatively new to the market place (e.g., electric tooth brushes)?

Special Note: Is there the possibility of industry "over capacity":

- -- locally, regionally or nationally?
- -- obsolete or up-to-date?

2. Financing

Is there enough money available from all sources to finance the project?

- -- community money?
- -- bank or other private financing?
- -- applicant's equity?
- -- working capital?

2. Financing (continued)

Has provision been made for:

- -- construction delays?
- -- start-up expenses?
- -- initial sales and merchandising costs to break into the established market?
- -- product modification (possibly involving equipment modification) in response to customer demands?

Has the availability of private financing, applicant's equity, and working capital been documented adequately?

3. Management Capabilities

Will the project have adequate management to handle competently:

- -- selection of site, building, machinery, and equipment?
- -- operation of the plant?
- -- sales and merchandising?
- -- cost controls?
- -- accounting?
- -- employee relations?

What is the business experience of those who will actively manage the project?

Do they show a pattern of success in:

- -- identical or similar ventures?
- -- closely allied ventures?
- -- unrelated businesses?

Do they have interests outside the project which will detract from their attention to the project?

Do they have other sources of income which will lessen their dependence on the success of the project?

To what extent are their own resources committed to the project?

Do they have business connections which might threaten a potential conflict of interest with respect to the project's welfare?

4. Materials and Supplies

Raw materials:

- -- are they available?
- -- in sufficient quantity?
- -- of such quality or grade as to minimize in-plant up-grading?
- -- at acceptable delivery costs?

4. Materials and Supplies (continued)

Supplies: (e.g., tools and dies, spare parts for machinery, repair facilities)

-- are they available?
-- promptly?
-- at reasonable cost?
-- is there a choice of sources or substitutes?

State source of information on above items.

5. Machinery and Equipment

Production Equipment:

-- will it perform the job for which it is intended?
-- will it do so efficiently and at an acceptable cost?
-- is it standard equipment available from several sources?
-- are spare parts or service readily obtainable?
-- if special purpose or of special design, has performance been proven under normal operating conditions?

Auxiliary Equipment:

-- will it perform the job intended?
-- the same questions as above? PLUS . . .
-- is it immediately necessary to the functioning of the operation or over-elaborate?

State source of information on above items.

Appendix 2

THE PRESENTATION OF INVESTMENT PROPOSALS

In order to attract capital for a new business, the developer should present a complete outline of the proposed business. In the promotion of a new product or process, he should be able to demonstrate its realistic potential in terms of:

1. the market potential,
2. manufacturing requirements,
3. financing requirements, and
4. general management requirements.

The market should be investigated as carefully as possible to determine if the potential is sufficient to attract investment capital. The market should be defined in detail: Is it specialized or broad? Is it regional or national? Is it characterized by many competitors or only a few? How successful have competing products been in the market? What unique appeal does the new product or process have? How is the market likely to react to the new product or process?

The problem of distribution is one that is usually discussed in detail after investment interests have begun their preliminary discussions. However, the developer should be familiar with distribution methods for his type of product, and he should be able to discuss the advantages and disadvantages of several possible methods.

Manufacturing requirements are a major consideration in any presentation of a new product. The developer should be able to present an estimate of production facilities required for a given number of units. This estimate should include data related to major items of production equipment and probable manpower requirements.

Financing requirements cannot be determined with complete accuracy, but the developer should estimate the probable cost for the preliminary work in refining the product for manufacture (including any research and development work required), in securing suitable manufacturing space, in the purchase of equipment, and in meeting necessary payrolls.

As a matter of basic interest to a prospective investor, and as a working guide for the developer himself, the preparation of a cash flow projection is highly desirable. Figures 1, 2, and 3 illustrate a useful format for this purpose. These forms, developed by Mr. Brainard Webb, Executive Vice President of the C & S Capital Corporation, require the developer to determine specific production, personnel, and financial requirements. The preparation of the cash flow projection and the pro forma profit and loss statement will indicate very clearly specific operating capital requirements. The data will also serve as a basis for determining what costs are most significant and require the most careful control.

General management requirements will be determined by the background of the developer himself and his feelings as to his role in the production and distribution of the product. In addition, the role of the investment group will shape the general management of a new enterprise. This is a time for careful reflection on the part of the originator of the proposal: on one hand, he may feel that he should control the company since the product is his idea; on the other hand, he must face the realistic problem of evaluating his own management capabilities. Many new enterprises lack management skills sufficiently well rounded to cope with all the problems that develop in an operating situation.

One of the major obstacles to be overcome by the developer of a new product or process involves the method of presenting his idea to prospective investors. It sometimes happens that an individual becomes so familiar with his idea that he fails to present it in meaningful and concise terms. For this reason, a very basic sort of background document has been developed by the technical assistance staff for use in describing the background, potential, and requirements of the new product or process. This form calls for the following information:

1. Descriptive title of product or process.
2. Names and addresses of developers.
3. Background of the developers.
4. Background of the product or process.
5. Description of the product or process.
6. Advantages of the product or process over similar products or processes.

7. Market for the product or process.
8. Estimated selling price and proposed method of distribution.
9. Consumer or industry reaction.
10. Patent status.
11. Availability of blueprints or working model.
12. Estimated capital investment and operating capital requirements, preferably including a cash flow projection and pro forma profit and loss statement.
13. Additional information.

This form is not intended to be used to describe in detail all of the features of the new product or process. The form serves several very useful functions, however. It requires the developer to reduce his idea to its basic elements and to determine if he needs to secure additional information before proceeding.

Figure 1

CASH FLOW PROJECTION

		Months												
		1	2	3	4	5	6	7	8	9	10	11	12	Total
1.	Gross Sales													
2.	Less: Returns, Allowances, and Discounts													
3.	Net Sales													
	Cash Receipts from:													
4.	Accounts Receivable and Notes Receivable (on Books)													
5.	Collection of Sales (Line 3)													
6.	Other Income													
7.	TOTAL CASH RECEIPTS													
	Cash Requirements:													
	(Prepare information called for in lines 27, 28, and 29 before proceeding further)													
8.	Accounts Payable (on Books)													
9.	Accounts Payable (New Purchases) (See line 28)													
10.	Direct Labor													
11.	Manufacturing Expense (Exclude Depreciation and Salaries)													
12.	Sales Expense (Exclude Depreciation and Salaries)													
13.	General and Administrative Expense (Exclude Depreciation and Salaries)													
14.	All Salaries													
15.	Research and Development Expense													
16.	Income Taxes													
17.	Notes Payable (Banks)													
18.	Notes Payable (Other)													
19.	Mortgage Payments													
20.	Interest													
21.	Other													
22.	TOTAL CASH REQUIREMENTS													
23.	Cash Receipts													
24.	Cash Requirements													
25.	Excess (Deficit)													
26.	Month End Balance (Cash at beginning__________)													
27.	Production Scheduled													
28.	Material Purchases													
29.	Purchase Payments (Transfer to line 9)													

Figure 2

INSTRUCTIONS FOR PREPARATION OF CASH FLOW PROJECTION

Line

1. Show management estimates of sales to be expected during forecast period (one year).
2. Deduct estimated returns, allowances, and discounts. (If established company, use prior experience.)
3. Line 1 minus line 2.
4. Estimated collection of existing receivables on basis of actual experience. Example:

   $$\frac{\text{Average Outstanding Receivables}}{\text{Annual Net Sales}} \times 360 = \underline{\qquad\quad} \text{ days to collect after shipping date.}$$

5. Same procedure as above to be applied to receivables created from new sales (line 3). (If new company, assume collection on due date of invoices.)
6. Rent, discounts taken, contemplated borrowings.
7. Summary of lines 4, 5, and 6.
8. Include all past due trade payable in first month, spread balance by discount date.
9. Purchase payments. (See line 28 for method of calculation.)
10. Direct labor cost.
11. Exclude depreciation and salaries
12. Exclude depreciation and salaries
13. Exclude depreciation and salaries

    (Lines 11–13:) If an existing company, compute these factors as a percentage of Net Sales during a prior period which you consider to be typical. If a new company, use estimates which can be supported. Apply percentages of figures on line 27.

14. All salaries (spread on level basis throughout year).
15. Research and Development costs payable in forecast period.
16. Income Taxes to be paid during forecast period.
17. Notes Payable presently on books or projected.
18. Notes Payable presently on books or projected (new machinery purchases, etc.).
19. Mortgages payable on books or projected.
20. Interest on existing proposed debt.
21. Other cash expenses or payments: Itemize substantial costs peculiar to your type of operation.
22. Summary of lines 8-21.
23. Copy line 7.

24. Copy line 22.

25. Line 23 minus line 24.

26. Start with cash position immediately preceding start of forecast period and carry forward cumulative total by month.

27. Insert the sales dollar value of production necessary to support projected sales and any related inventory build-up, taking into consideration the time required for manufacturing and delivery. All percentages used in lines 9, 10, 11, 12, and 13 of the Cash Flow Chart apply to this figure.

28. List planned purchases by month.

29. Spread purchase payments into the months in which they fall due.

Figure 3

STATEMENT OF INCOME

(Period Covered)

	Actual	Per Cent of Net Sales	Projected	Per Cent of Net Sales
Gross Sales				
Less: Returns, Allowances, and Discounts	____		____	
Net Sales		100%		100%
Raw Material Used	____	____	____	____
Direct Labor	____	____	____	____
Manufacturing Expenses	____	____	____	____
Other	____	____	____	____
Inventory Adjustment	____	____	____	____
Cost of Sales	____	____	____	____
Gross Profit	____	____	____	____
Selling Expenses	____	____	____	____
Administrative and General Expenses	____	____	____	____
Total Expenses	____	____	____	____
Operating Profit	____	____	____	____
Other Income	____	____	____	____
Other Charges	____	____	____	____
Profit Before Taxes	____	____	____	____
Reserve for Taxes	____	____	____	____
Net Profit	____	____	____	____

Note: Total amount of depreciation and amortization included in above figures.